

**BECOMING A GLOBALLY  
COMPETITIVE PLAYER: THE CASE OF  
THE MUSIC INDUSTRY IN JAMAICA**

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## **BECOMING A GLOBALLY COMPETITIVE PLAYER: THE CASE OF THE MUSIC INDUSTRY IN JAMAICA**

*Zeljka Kozul-Wright and Lloyd Stanbury \**

*A central issue in the determinants of competitiveness concerns the decision by firms to make investments relating to technology and innovation. Economists are divided on this issue. On the one hand, main-stream neoclassical analysis sees this as a straightforward decision on the part of firms based on their profit maximizing calculus in response to market signals. On the other hand, the neo-Schumpeterian school interprets innovation as a much more uncertain process guided by a mixture of market and non-market signals and resulting from collective learning and selection processes (Kozul-Wright, 1995).*

*The concept of a National System of Innovation (NSI) extends the neo-Schumpeterian analysis by linking the enterprises' decisions to innovate to "a network of institutions, public and private whose actions initiate, import, modify and diffuse new technologies" (Nelson, 1993). The NSI approach seeks to explain the determinants of technical change and organizational innovations as endogenous factors in the economic system. It also allows for a comparison of different institutional arrangements which guide the innovative process favourable to economic growth.*

*This paper uses the NSI approach to examine the prospects for industrial development in Jamaica, a small middle-income developing country. It argues that the present state of the Jamaican NSI is not adequately developed to provide the necessary support to ensure that one of its key emerging industries – the music sector – becomes competitive on global markets. It suggests various policy options aimed at industrial upgrading and better integration with those markets. The type of applied research presented here is highly original and speaks to a wider audience, as it represents a novel attempt to operationalize the concept of NSI in a developing country context, with particular reference to the music and entertainment sector, which is not traditionally treated in the NSI context. This sector, however, has been selected as one of the leading emerging sectors for the Jamaican economy identified in its national industrial policy.*

### **I. NATIONAL SYSTEM OF INNOVATION**

There is a growing consensus that the ability of a country to sustain rapid economic growth over the long run is highly dependent on the effectiveness with which its institutions (or clusters of institutions) and policies support the technological progress and innovativeness of its enterprises. Such institutions and policies are already firmly in place in most advanced industrial economies having evolved gradually over the course of this century. Developing countries, whose science and technology institutions are, for the most part, of much more recent vintage, tend to be more fragmented, uncoordinated and poorly adapted to meeting local industry's needs. Consequently, a fresh approach linked to policy reform is needed to enable developing countries to assess their performance in this domain, exchange experiences and make tangible improvements.<sup>1</sup>

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\* From, respectively, the United Nations Conference on Trade and Development (UNCTAD), Geneva, and the Entertainment Industry Advisory Council, Kingston, Jamaica.

<sup>1</sup> For an elaboration of the NSI concept and its application to developing countries, see UNCTAD (1998a).

Adopting an NSI perspective implies a new understanding of innovation as a dynamic process, in which enterprises, in close interaction with one another, play the key role in bringing new products, processes and forms of organization into economic use. But firms do not act in isolation. Other important players in this process interacting with firms are universities, technological institutes, research and development (R&D) centres, other “bridging institutions” (such as technology or innovation centres), technology incubators, industry associations, institutions involved in education and training, as well as those involved in the financing of innovation. This paper underscores the interactive nature of the innovative process in which the complementary practices and capabilities of all agents in NSI exert a direct impact on the ability of firms to compete through innovation.

The concept of innovation in the developing world requires a rather broad interpretation, one which encompasses the processes by which firms master and apply product designs and manufacturing processes that are new to them, or even to the nation, if not to the world. This definition includes *incremental* as well as radical or generic innovations, but tends to focus on the former. *Innovation* thus becomes a process wherein individuals, strategic alliances, supplier networks and organizations take new initiatives which exploit the knowledge-base of their economy (UNCTAD, 1998; Lundvall, 1993).<sup>2</sup> Innovation represents the commercial application of new knowledge or the combination of old knowledge in radically novel ways. Such activity, whilst disrupting existing economic routines – and the associated firms, practices and factors of production – will improve the competitive position of the firm, or the broader productive unit in which it is introduced, by creating new markets, thereby advancing the technological regime or establishing new linkages between product producers and users (UNCTAD, 1998). As such, innovation is a permanent and endogenous feature of economic development which characterizes “the processes by which firms master and implement the design and production of goods and services that are new to them, irrespective of whether or not they are new to their competitors – domestic or foreign” (Ernst et al., 1998). Although scientific and technological development constitutes one of the key sources of industrial development and competitiveness, most developing countries have a poorly developed technological infrastructure and weak linkages between their R&D systems and the productive sectors of their economies.

In contrast to the traditional supply-oriented approaches to innovation, which adopted an essentially static approach by focusing on the output of science and technology (S&T) institutions (e.g. publications, patents), this study highlights the use and the value of those S&T outputs to other producers. From its perspective, innovation policy, not only aims to build on the importance of user-producer interactions and

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<sup>2</sup> See Nelson (1993) and Lundvall (1992). Our definition of innovation refers directly back to Schumpeter’s, where the sources of competition in capitalist economies do not arise from lower prices for the same product, but from “new consumer goods, new methods of production, or transportation, new markets, new forms of industrial organization that capitalist enterprise creates” (Schumpeter, 1987).

flows, but also is seen as part of a set of complementary policies, whose interaction will affect the larger environment within which firms make innovation decisions.

The objectives of the study are manifold, *inter alia*: (i) to evaluate the innovative performance of the music sector with a view to realizing the export potential of the music industry by reviewing the institutional dynamics based on linkages and interactions between the key agents in the national system of innovation (i.e. the public sector, formal S&T sector, financial sector) and how these interactions impact upon the industry's performance in a dynamic context. A related aim is to explore the institutional links between this sector and the NSI and to explore how these could change over time; (ii) to identify the strengths and weaknesses of this sector's technological performance, in particular of the music product, by identifying factors which could enhance or impede the industry's innovative potential; (iii) to evaluate Jamaica's present technology policy aimed at enhancing innovation-based competitiveness in one of its strategic sectors, namely music and entertainment with a view to the upgrading of Jamaica's manufacturing and exporting capabilities; (iv) to offer suggestions and recommendations aimed at the creation of a congenial environment which would foster the industry's development through the NSI approach, which proposes an alternative institutional design conducive to enterprise-based innovation. This is to be accomplished through development of policy recommendations aimed at upgrading of domestic enterprise-level capabilities.

Our primary data originate from over 100 firm-based interviews and surveys conducted in Jamaica over a one-year period (1996-1997), of the key players in Jamaica's NSI and its music industry. The sample of over 100 industry-wide players included individuals and institutions directly involved with the industry, including the songwriters, musicians, performers, producers, managers, publishers, promoters, broadcasters, merchants, distributors, entertainment attorneys and individuals in the public sector charged with the industry's development, responsible government officials, private sector individuals, members of the financial community, music school personnel, officials in training institutes, and other key individuals involved in the industry. These include interviews with individuals not only in Jamaica but also distributors in the United Kingdom, United States and several European countries.

An assessment of Jamaica's NSI can hardly be attempted without prior consideration of the new policy of economic openness centred on liberalization, deregulation and privatization to Jamaica's development prospects. The opening up of the economy in the 1990s led to a major increase in the competitive pressure of foreign firms on all Jamaican industries. The initial impact on the balance of payments and on employment has been far from positive. However, the objective of the new policy is to take advantage of these competitive pressures and the new trading opportunities to stimulate technological innovation and business capabilities in Jamaican firms and thus enable them to compete in the global market. This has been accompanied by a profound reorientation of the role of government from one based on dirigisme and direct intervention in the economy to a proactive role which favours the

creation of an appropriate institutional framework aimed at enhancing the capabilities of the private sector to compete in the international arena.

Failures in inputs markets, such as skills and other dimensions of education and training, are widely acknowledged to exist everywhere (Lall, 1995). Practically all governments undertake a whole range of interventions in their education and training systems to overcome these market failures. Moreover, as international technology markets are fragmented and highly imperfect, governments of developing countries should look for ways to help their enterprises to find, bargain for and transfer new technologies that do not violate the international agreements signed at the Uruguay Round (Lall, 1995). Support to domestic enterprises is particularly required in the area of provision of information and assistance with bargaining with multinational corporations (MNCs) – which represents an important source of learning in the technology transfer and technological capability-building process.

Previously it was believed that technological innovation was a linear process that began with scientific research which was subsequently passed on to industry. In contrast to this unidirectional interpretation of innovation, it is now recognized that the nature of innovation, as well as our understanding of it, has radically altered. Technological changes often provide insights to those engaged in scientific research and vice versa. Indeed, since many innovations involve incremental improvements in technical performance, product quality, product design, or simply learning how to manufacture an already existing product, it is clear that identifying the users and producers of an innovation is difficult while the sources of innovation itself are often multiple, unpredictable and highly uncertain.

Historically all governments have intervened in the market place in support of the production of this service. Across all industrialized countries, the field of culture has been subsidized heavily. The prerequisite of a successful modern industry has been the existence of a supportive regulatory framework for the industry's development (e.g. an appropriate IPR regime). The change in perception of the music product as merely an expression of art and culture towards a commercial product has already occurred in many developing countries. This is particularly the case in countries where the service sector has experienced fast growth. Developing countries need to diversify across the whole range of goods and services, in order to take the full advantage of today's new trading opportunities offered by the latest set of Uruguay Round negotiations. Extensive literature on the economic contribution of the music industry in industrialized countries indicates that in all success cases of commercialization of creative or artistic works, policy played an instrumental role in the evolution of these industries, although the nature and character of this process varied significantly among countries and regions (Baumol and Bowen, 1987; Vogel, 1998; Coase, 1966; Alexander, 1994; Fink, 1989; Shaw, 1987; Toll, 1982; EC, 1993; Dyson et al., 1988).

## **II. THE PRODUCTION PROCESS OF MUSIC PRODUCTS AND SERVICES**

There are at least 16 separate and clearly identifiable functions involved in the music business: namely, singers, musicians, songwriters, producers, audio engineers, publishers, record manufacturers, promoters, managers, disc jockeys (radio, club and sound system) booking agents, venue operators, merchandise manufacturers, entertainment attorneys, distributors and retailers. Combined, the above-mentioned activities result in the production and provision of most of the products and services available in the business of music.

### ***A. Recorded music products***

Despite much crossover and integration among separate activities, there are four distinct phases of the recorded music business, i.e. recording, manufacturing, marketing cum distribution and retailing phases. Let us briefly summarize the key activities involved in each phase.

#### ***1. Recording phase***

The first phase of the process involves the making of a master recording of a musical work whereby singers, musicians, songwriters, sound engineers and record producers assemble in a recording studio in order to produce a master recording (studio recording facilities are generally rented). This completes the first phase of the music making process.

The record producer is usually the owner of the master recording (but not the song itself, which remains the property of the creators by virtue of the law of copyright). The commercial exploitation of the recording and the song incorporated in the recording normally generates income by way of royalties. Royalties generated from the exploitation of the recording are shared amongst the producer and the artist, while royalties from the exploitation of the song are shared between the creator (songwriter) and the publishers. The publisher, by virtue of song-writing agreements, secures rights to administer the copyrights on behalf of the songwriters. Publishers and songwriters usually secure the services of music agencies, such as the Performing Rights Society (PRS), American Society of Composers, Authors and Publishers (ASCAP), Mechanical Copyright Protection Society (MCPS) and the Harry Fox Agency, to deal copyright collection with the issuance of licenses for the use of musical works and the collection and distribution of royalties generated from the use of the works.

The record producer's responsibility is usually to finance the cost of the studio recording process and to coordinate the activities of songwriters, singers, musicians, and recording engineers in the recording

studio. The master recording which results from the studio recording sessions is usually the property of the record producer.

## ***2. Manufacturing of the finished products***

Following the completion of the master recording, the record producer, who owns the particular sound recording of the song in question, enters into an agreement with a manufacturer or distributor, who is generally given the right to manufacture and distribute the finished product in the form of vinyl records, cassettes, compact discs, mini discs or digital compact discs (DCDs). This is the second stage of the process, which is usually done at a record manufacturing facility or plant, such as a CD-pressing or manufacturing plant, or a vinyl or cassette tape manufacturing facility. At this plant, hundreds or even thousands of copies are made for the mass market. Such a facility could be either physically separate or under one roof with the recording studios discussed in phase I. This phase is considered to be the least costly part of the process on a per unit basis, once the physical plant and equipment are set up. The latter is characterized by high capital costs requirements.

## ***3. Marketing and distribution***

The third phase of the recorded music process involves marketing and distribution of the finished products. It is common for marketing and distribution of finished products to be “handled” by the same entity. The process consists of bringing the product to the final consumer and to the necessary promotion and advertising required to sell the product. Both promotion and advertising are very costly and are frequently undertaken by one entity. This is usually the most capital-intensive phase, owing to high costs of advertising and promotion.

## ***4. Retailing***

Retailing is typically conducted by different companies from those found in previous phases although not always. There is much variation. Retailers can either be small or large, e.g. in the United States large retail chains, such as Sam Goody's, Tower Records, Virgin, HMV and others. Being close to the final consumers, retailers are sensitive to the changing market demand patterns and can exert an influence on all the three preceding phases. Retailers can also play an important role in the third phase of the process (especially marketing) and normally command a high mark up for their services.

## ***B. Services***

While the production and sale of recorded music involves the rendering of services by entities and individuals such as musicians, singers, producers, publishers, distributors and retailers, there are a number of music business activities which entail the provision of services only, with no commodities or goods being produced. These strict service activities may be categorized as: (a) creative services; (b) technical services; and (c) representational services. Creative services include the provision of concert performance services by singers, musicians and audio engineers, which are rendered both locally and internationally. Technical services include the provision of recording studio rental facilities, sound and lighting reinforcement for concerts, and concert venue rentals. The area of representational services consists of a wide variety of activities, including the functions of artist personal manager, artist business manager, booking agent, publicist, legal counsel, and music publisher.

The service sector of music business in Jamaica is particularly important because of its potential for employment for a large number of service providers. The service sector also enjoys the advantage of freedom of movement throughout the global economy as service providers are able to render services relatively freely anywhere in the world. In addition, while most master recordings are still produced in North America, Western Europe and Japan, several major and large independent record companies have sought to engage the services and facilities of recording studios and recording personnel, such as musicians and audio engineers, in developing countries in an effort to obtain the music flavour of these countries to produce their master recordings in the increasing quest to diversify the recorded music product. Many foreign artists have recorded their music products in Jamaican recording studios, using Jamaican music-related services.

## ***C. The business of recorded music in developing countries***

In terms of the differences in the recording processes between developing and developed market economies, record producers from developing countries normally do not participate in the manufacturing and distribution phases, which account for the greater portion of the value-added chain. Instead, record producers normally receive royalties from the sale of finished product, averaging between 10 and 15 percent of the retail price, depending on the provisions of the agreements entered into the distributors, or the record companies.

In most developing countries, the above described process in the recording industry occurs differently from the norm in developed countries (with the exception of very large countries, such as Brazil, India and People's Republic of China). In many developing countries, adequate facilities exist for

the recording phase of the process. However, in the manufacturing phase, major differences can be observed. For example, producers of music products in developing countries do not have adequate access to manufacturing facilities for the CD format (currently the dominant format accounting for approximately 70 per cent of global sales). Manufacturing facilities in most developing countries are not equivalent to those found in the developed world, in part owing to technological and other differences in productive assets. Their facilities, on the average, tend to be far less equipped and up-to-date than those in most developed market economies. However, the most striking contrast occurs in the marketing, distribution and retailing phases, where the developing countries are generally “at the mercy” of the major record companies, especially in regards to activities in mature markets. Most producers from developing countries face similar market conditions as do small independent labels in mature markets, namely, they do not have the financial muscle to underwrite large scale manufacturing or to assume the financial risks inherent in launching new recordings (EC, 1993). A further notable difference relates to the striking absence of institutions and organizations in support of the industry in most developing countries (lobbying and interest groups).<sup>3</sup>

In the area of enforcement and administration of copyrights there are also significant differences between activities in developed and developing countries. In many developing countries, the process of modernization of copyright law has progressed at a very slow pace and schemes for collective administration of copyrights and neighbouring rights are underdeveloped. Music piracy continues to be rampant in these countries resulting in significant reductions in income generated within the legitimate income stream.

### **III. GLOBAL TRENDS: TRADE, TECHNOLOGY AND CONCENTRATION**

Accelerated growth of output of recorded music has been amply documented, and is tightly interwoven with the introduction and application of new technologies, which have vastly increased the size of markets through media such channels as radio, TV, films, VCRs, etc. (Krasilovksy and Shemel, 1995). The growth of electronic media has stimulated the production of music products, leading to the establishment of new markets and vast trading opportunities. The industry is, however, marked by highly uneven patterns of geographic distribution. While the United States still remains the largest location of production as well as the most important market for musical output, this dominance has gradually eroded

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<sup>3</sup> For example, in the United Kingdom there are numerous entities and organizations, be it public, private, or mixed ownership in the music industry, such as the PPL (Phonographic Performance Ltd.), PRS (Performing Rights Society), MCPS (Mechanical Copyright Protection Society); Music Rights; The Guild of Producers, Directors and Engineers (Repro), BPI (British Phonographic Industry), Musicians’ Union, PAMRA-PPL, as well as their international counterparts, such as the IFPI (London).

over the last decade. The *relative* amount of media output produced and consumed in the United States is declining, creating new windows of opportunity for developing countries, especially those with enhanced sound-recording productive capacity. This process is presently being stimulated by increased commercialization of the media services which could spell the end of the traditional “one-way” trade in music products (UNCTAD, 1996b).

Globalization of the world economy is characterized by the following trends: (a) international-ization of production; (b) concentration combined with segmentation; (c) deindustrialization: a shift from manufacturing into services; and (d) competition based on knowledge-intensive products (UNCTAD, 1995a). The music industry typifies these trends particularly in terms of deindustrialization and concentration. The global music industry is currently dominated by five major record companies: Polygram/Universal, WEA (Warner Electra Atlantic), Sony, BMG and EMI – which together have a combined output at the level of distribution of over 80 per cent of the US market share (Alexander, 1994). Recently, however, it has been noted that the balance of power in the entertainment industry is not only shifting amongst the major record companies themselves, but also the regional balance of power is expected to change in the next decade. Control still, however, remains with the 5 majors despite the emergence of small- and medium-sized independent distributors that have now become a considerable force. In the United States in 1997, the market share of independently distributed labels as a whole exceeded that of WEA. The strongest among this group of independents include such labels as Zomba, Edel, Play it Again Sam, and Rock, which have all firmly established themselves as powerhouses. Recent developments in the production and delivery of audiovisual services suggest major changes in the developing world, which are also shifting the traditional power structures, offering new opportunities for the developing countries exporters’. This is especially so in the Asian, Latin American and Eastern European markets (*The Economist*, 13 January 1998 (UNCTAD, 1998).

Western markets are characterized by an insatiable demand for novelty exemplified by the growing demand for World Music genre. Based on the experiences of the last two decades, it is predicted that significant market opportunities for music from developing countries will not only continue to exist but grow. It is also assumed that technology – the catalyst for change in this sector – will keep on reducing the prices for media products. These claims are further based on the assumption that technology in this sector will follow the present trends, namely both the price of the final music product as well as that of production and distribution technology will continue to decrease owing to the fast pace of technical change. Moreover, entertainment technology is likely to become not only cheaper, but smaller and more accessible worldwide. The present trends are expected to continue, as income, leisure time and technical change continue to stimulate both the demand and the supply of all media services, including music. There is no indication that these trends will be reversed in the 21st century. Such developments in technology will have obvious implications on the present market structures of the media industries. Increasingly the

global media conglomerates are operating on a worldwide scale. In terms of market structure, it has been suggested that the typical size of a productive unit is likely to diminish and for the industry to become even more fragmented. Internationalization of the music industry would not be possible without the application of ITs and digital technologies. This is an industry which is driven by technical change both as regards production based technologies, as well as new distribution technologies, e.g. video-based technologies, fibre optic cables, etc. The diffusion of ICT has exerted a profound impact on the industry's development and continues to do so unabated (see MBI, 1998; Krasilovsky and Shemel, 1995; UNCTAD, 1996b; EC, 1997; Vogel, 1998).

The music sector represents a growing part of the audio visual service industry worldwide, which is characterized by a tremendous growth potential. This can be in part accounted for as a result of more fragmented demand in global markets and niche marketing. The emergence of a global market for the media industry is also related to increased market and competitive pressure (Parisotto, 1997). The all powerful media MNCs are searching to contract out activities in order to save on costs, improve product quality and increase market shares. Previous studies have identified increased cross-border activity in all media industries over the last decade, which have accounted for a growing share of their output and revenues. Both supply and demand factors account for these changes. On the supply side, the following forces have been identified as being critical in inducing the new developments: (a) technological change, particularly on the distribution end; (e.g. cable and satellite transmission, application of information and digital technologies); (b) deregulation of the media services in most countries; and (c) change in the leading firms' strategic behaviour.<sup>4</sup> As these forces are closely interrelated it is almost impossible to determine causality, yet the combination of these forces has resulted in increased globalization of all media services, including production and especially distribution of music (Parisotto, 1997).

The global music business is characterized by intense competition among a small group of large conglomerates whose market share approximates 70 per cent and has remained relatively constant over the years. However, it is claimed that smaller firms and new entrants could in the future affect the dominance of the major record companies by successfully bypassing the significant entry barriers in the areas of distribution and marketing by going directly to retail and end-users via the Internet. Music industry sources claim that in the 21st century, the Internet is likely to represent the most important new channel of promotion and distribution. Since online services can be generated and accessed from anywhere in the world, this presents a major problem for the administration of copyrights.<sup>5</sup>

Although full implications of trading via Internet are not yet fully known, they are becoming clearer (MBI, 1998). Practically all of the major record companies are currently launching websites and are

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<sup>4</sup> Present trends towards internationalization of the media activities have been discussed in Parisotto (1997).

<sup>5</sup> For discussion of commerce in the European Communities, see EC (1997).

offering online services; some of which already provide mail order services while others offer material which can be directly downloaded. Electronic commerce already offers new trading opportunities for many developing country producers, not only for the purposes of distribution but also marketing and promotion. Well informed industry sources predict that Internet will dramatically change the music industry over the next decade, comparable to the "CD revolution" of the 1980s:<sup>6</sup> by the year 2002 online sales of prerecorded music, it has been estimated, will amount to \$US 1.6 billion, or 7.5 per cent of the global music market. The Internet option is more likely to affect final sales in the United States than anywhere else, owing to its widespread application. It is highly likely that the US-based producers will try to thwart competition from outside "cyber-invaders". Measures, however, should be employed to ensure that such practices be curtailed, preferably through international regulation.

The global music business is a multi billion dollar segment of the media industries, and has been growing at a high rate, from US\$ 26 billion in 1991 to almost \$40 billion in 1996. Existing data indicates a 700 per cent increase in 12 years (from 1980-1992), in trade in sound recordings. This suggests a far larger volume of trade in sound recordings in the 1990s, compared to any other segment of the media industries (UN, various years). Although this still represents only a small percentage of overall world trade, it indicates a fast rate of growth of this segment of the service industries. The music industry contributes significantly to the GDP in most industrialized economies. For example in the United States, the copyright industries (including music), account for 6 per cent of the GDP, for 5 per cent of employment and rival the automobile industry in terms of sales. In the UK export earnings from the music sector exceed those of the steel industry. The most significant emerging trader is Asia. The main economic activities in the music sector are: sale of recorded music, concert performances, sale of music-related merchandise, radio and television programming, motion picture soundtracks and advertising.

The size of global demand for music products in general is immense. For example, over 99 per cent of US households, 60 per cent in the United Kingdom, and over 75 per cent in Japan own radios, television and video cassette recorders (PIOJ, 1996). Already, there are 10,200 commercial radio and television stations in the United States; 200 commercial radio stations; 18 terrestrial TV stations and 57 cable satellite stations in the United Kingdom and 2,000 in Japan (Krasilovsky and Shemel, 1995). In 1993, the International Federation of Phonographic Industry (IFPI) estimated that sales of prerecorded music would top one billion units in that year. By 1996, world sales had increased to 3.7 billion units and US\$ 40 billion. Compact discs (CDs) represent the largest and fastest growing segment of the market, with CD players found in 43 per cent of US households and 28 per cent of European households. By 1996, CD sales accounted for 61 per cent of units of prerecorded music sold worldwide. During 1991-1996, the world

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<sup>6</sup> While immediate change in the present structure of distribution is not likely, it has been suggested that Internet will "render as artificial the distinction between performance, broadcast and distribution. This will have dramatic implications on the industry" (interview with Jupiter Communications, 1998).

market displayed an annual growth rate of 5 per cent, whether measured by units sold or real value. Over the same period, the real value of CD sales averaged 17 per cent annual growth, whereas the sales of cassette tapes fell by 1 per cent per year.

Recent demographic studies indicate an increase in the ageing population, with more resources to buy music products. Expansion of leisure time, in most developed market economies and new trends which indicate that more adults than ever before are buying music products, contribute to the growing demand for entertainment and for the music product. It is anticipated that demand for music products will continue to increase. Although developed countries remain the largest markets, developing countries have begun to make a significant contribution to the overall growth of demand and in 1995-1996 actually contributed more than half the increase in overall global demand in prerecorded music sales. The fastest growing region in 1996 was Latin America with a 20 per cent increase in units and 25 per cent in real value. There is a special interest shown in particular for music from Cuba (IFPI, 1997). Music sales are expected to increase 4 per cent per annum in the EU, 1 per cent per annum in North America, 17 per cent per annum in Asia and 30 per cent per annum in Eastern Europe (EC, 1997).

Conditions of global demand for the music product are considered very favourable in the long run. Despite short run cyclical movements, the trend is likely to be so in the future.<sup>7</sup> Current trends in sales of recorded music indicate that there is a slowing down in the more mature markets of Western Europe, United States, and Japan – this trend, however, is offset by the emergence of new markets in developing countries in Eastern Europe, Asia and Latin America (*The Economist*, 13 January 1998). The audiovisual market in developing countries is potentially enormous, and although hard data are not available, evidence would strongly suggest that globalization of the media industry is increasingly reaching the developing world.

In Latin America and Asia record sales are expanding the fastest. Yet these regions are the ones where profitability is under intense pressure owing to rampant piracy.<sup>8</sup> In terms of the economic impact of the industry, projections for the year 2003 are for global sales of \$US 50.7 billion. In 1996 Japan accounted for 16 per cent of world sales of recorded music, the European Union represented around 30 per cent, while the United States still leads with 35 per cent of world sales (EC, 1997).

The current degree of industry concentration mentioned above, poses a serious challenge to producers from the developing world aspiring to enter and conquer new markets. The current global industrial structure is characterized by oligopolistic competition by the five major companies and by high capital and technological barriers to entry in the post-production phase (Alexander, 1994). However, in

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<sup>7</sup> See Parisotto (1997); *The Economist*, 13 January 1998; *The Financial Times*, 13 January 1998.

<sup>8</sup> It is predicted that the global music industry is entering a period of slower growth, compared to the 1980s decade, which was marked by tremendous growth performance (*Financial Times*, 13 January 1998).

recent times, there have been a number of encouraging market developments discussed below whose impact upon the industry's performance in developing countries needs to be explored further. Despite the high levels of concentration and control in distribution and marketing by the five major multinational conglomerates, some encouraging new developments, in particular those associated with application of new technologies, have emerged which offer new trading opportunities for the music-exporting countries. For example:

- (i) The rapid rates of application of information and digital technologies in production, marketing and distribution, including the Internet (online retailing and downloading) has profoundly changed the industry in the last decade. Online delivery of music is expected to boom in the 21st century. Although at present digital music sales are limited to small trials, it is expected that the market will take off this year and be worth US\$1.64 billion. Warner, Sony and other TNCs are already offering online music sales in some European countries, such as Germany (*Financial Times*, 21 January 1998). New digital technologies have exerted a powerful impact on the industry, in particular new distribution technologies (cable TV, satellite transmission, video-cassette recorders and others) which are enabling larger audiences and increased cross-border activities. Expansion of electronic media in other aspects of the industry has been universal. The Internet is already considered an important additional distribution medium of the future, offering endless new possibilities for distribution by independent producers thereby creating new windows of opportunity to music-exporting developing countries that allow them to bypass the traditional distribution and retail systems normally controlled by the major record companies. Although some developing countries are already using this facility effectively, much room exists for expansion at national and regional levels. Many developing countries could reap substantial gains from entertainment services, in terms of employment, foreign exchange earnings, and other indirect effects which accompany exporting. These are especially important for small market economies, where new production arrangements, such as international subcontracting, provide new ways to build up the domestic music and media sectors.
- (ii) There are opportunities for rapid growth in music services, and consequently earnings. On the demand side, owing to wide diffusion of information technologies, and media channels, the music market responds quicker and more than ever to changes in variables such as income elasticity, consumer preferences, demographic shifts and fashion trends associated with largely marketing trends. The increased demand for entertainment in general and for "world music" in particular are likely to positively affect growth in music services.

- (iii) IPRs-TRIPS: The strengthening of international copyright legislation (although enforcement remains a major problem); and other changes in the regulatory environment associated with deregulation and liberalization of the government regulations in the media service sector, as well as the more liberal media policies adopted by most governments have created a better environment for the development of music business enterprises. Simultaneously, however, there is an increasingly worrying factor in the industry which relates to the weakening of traditional copyright protection mechanisms, owing to widespread application of digital diffusion, which has exerted a profound impact on the industry. It is argued that copyright legislation needs to be modified in the light of new technological developments, as the legal mechanisms for enforcing copyright protection for music distributed by digital means are presently very weak. Presently existing music copyright collective administration systems operate on the basis of licensing for use within prescribed domestic boundaries, while online services are linked to international networks (EC, 1997).
- (iv) Owing to the nature of the product (a consumer article of “fashion”) and enhanced productive capacities of the fast growing developing countries, some developing countries are beginning to make an entry on lucrative markets of industrialized countries and fill the important market niche (predominantly in down- and mid-stream activities). Increasingly new investments in the industry are taking place in South East Asia.
- (v) Developments in marketing and advertising (exploration of new strategies, such as niche marketing, etc.);
- (vi) Increased availability of media channels, which enhance the products’ marketing and distribution;
- (vii) Although pop and rock genres predominate worldwide, global demand for “world music” is increasing in the mature markets – saturated with standardized, techno-music dominance;
- (viii) Emergence of new musical genres world-wide, thereby creating additional demand for the music product;
- (ix) Emergence of new markets in the 1990s, particularly in Asia, East and central Europe, Latin America and Africa.

Calculating the overall economic impact of the music industry in developing countries is very difficult, owing to the highly disorganized nature of the industry, which often tends to be located in the informal sector. Additionally, the lack of respect for copyright results in rampant piracy, and demoralization of local music creators. There are also highly asymmetric relations amongst the different industry participants (differential access to productive assets) and the predominance of anarchic and rent seeking behaviour throughout the entire process.

Most music exporting developing countries face severe barriers to entry into global markets in sound recordings, associated with high degrees of market concentration (see Parisotto, 1997; UNCTAD, 1998). Particularly in the area of traditional marketing and distribution, with high sunk costs and capital requirements, music-exporting developing countries face considerable challenges. Enhancing their export capabilities and employing new marketing and distribution techniques could provide the way out of the constraints associated with small domestic market size and diseconomies of scale. A certain minimum efficiency in production is nevertheless required prior to entering foreign markets. It is claimed that new trading markets and trading opportunities have been opened up by globalization and internationalization of the media industries and that the application of new IT (information technologies) and digital technologies has played a critical part in this process. The 21st century heralds yet another Schumpeterian gale of technological changes, in particular associated with application of information and telecommunication technologies or ICTs, especially the Internet. These major new technological trajectories will change the way music is produced, reproduced and distributed. "... the potential for creation, for enjoyment and use of music has never been greater" (Vogel, 1998). Widespread diffusion of ICTs in every aspect of the highly amorphous industry has propelled the globalization of the music industry. Simultaneously, the same technological advances which have enabled the industry's massive growth and development, have adversely impacted it through massive increases in piracy and boot-legging (particularly a problem in developing countries with weak enforcement mechanisms). Piracy is presently occurring at an unprecedented pace, since new technologies have made it so easy to copy. The music business is fraught with challenges which of course makes it very exciting. It is business that never stops changing and the next century is not likely to see a reduction in those challenges.

The ownership structure and international activities of the five major record companies provide a clear indication of the global nature of the business of music. Over the past 10 years there have been a number of mergers and takeovers by large TNCs from all over the world resulting in an ownership structure as follows; Polygram/Universal owned by the Canadian drinks conglomerate Seagram, Sony/CBS owned by the Japanese Sony Corporation, WEA (Warner Electra Atlantic) owned by the American Time Warner, BMG owned by the German Bertelsmann group and EMI owned by the British company EMI. All the above-mentioned companies conduct their global activities through branch offices and joint ventures in the United States, Europe, Japan, Latin America and more recently Asia.

#### IV. THE MUSIC INDUSTRY IN THE NATIONAL SYSTEM OF INNOVATION IN JAMAICA

Entertainment services represent an expanding economic activity in Jamaica.<sup>9</sup> The service sector is the fastest growing sector in most developing countries and the entertainment industry forms a growing segment of this sector (UNCTAD, 1998). Over the past two decades, the service sector in Jamaica has experienced rapid growth rates, with the fastest increase in labour employment accounting for the largest proportion of the total national output.<sup>10</sup> As stated in its *National Industrial Policy* (OPM, 1996), the government recognized not only the economic significance of the entertainment industry but also its importance as an expression of the richness of Jamaican culture.

The basic development challenge facing the Jamaican economy is one common to many other middle-income developing countries. On the one hand, competition has grown from low-wage producers, particularly in Asia, but also elsewhere in Latin America, in a number of its traditional exporting activities (such as agricultural and mineral commodities), and on the other, in higher value-added products (apparel), Jamaica has yet to match the quality required to enter new markets. In its traditional sectors, Jamaica can no longer rely on cost advantages, but it must compete increasingly through diversification and innovation – namely product and process development and the upgrading of its technological capabilities towards higher value-added activities which utilize more capital, skill and technology-intensive exporting activities. This process may entail shifts within the same sector or moves into another sector, like services (especially the audiovisual segment of services, in which Jamaica already has a comparative advantage) which can provide a viable alternative. As highlighted by its *National Industrial Policy*, the music sector has been identified as one of Jamaica's leading emerging sectors with significant growth and export potential.

The Jamaican music sector is characterized by a dual industrial structure, with a small minority of well known artists who have “made it” in international markets, such as Jimmy Cliff, Shaggy, Inner Circle, Ini Kamoze, Patra, Third World, Diana King, and Buju Banton, who operate under modern competitive conditions analogous to those found in the rest of the developed world. However, the majority of local musicians, artists and producers function under far less organized and fortuitous circumstances. In addition to inadequate financial structures to support the industry, there is an absence of formal market institutional structures within the industry itself. At present, the industry is highly fragmented, characterized largely by small and medium-sized enterprises (SMEs) and micro enterprise production units

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<sup>9</sup> The work in this section was in part carried out in collaboration with Jenny Holland (see UNCTAD, 1998a, ch. 2).

<sup>10</sup> For one set of industry data, see SIJ (1996).

comprised of many differentiated performing artists. There is no accurate count of the number of players in the industry for example, since many companies are neither legal nor taxable entities, often operating from home rather than an official business address. There is a plethora of Jamaican producers and recording studios; “Jamaica has at least 50 studios of which 20 may be classified as major”, while it would be far more efficient to have only a few modern, technologically up-to-date, well managed ones that match international standards.

Other vital services providing artist management, promotion, marketing, stage management, audio engineering, and finance also vary enormously in their operational and organizational capacity. Small companies in the music business are characterized by little division of labour and no vertical or horizontal integration whereas some larger companies are fairly well organized and have incorporated strategic planning skills. An analogous situation applies to *distribution*, which remains highly chaotic and characterized by rent-seeking behaviour. Distribution in Jamaica is characterized by sales activities primarily within the boundaries of the Island with some limited exports of vinyl and cassette products to the United Kingdom, Japan, North America and the Caribbean. Large local distributors, such as Sonic Sounds, Dynamics and Tuff Gong, face stringent competition from major foreign distributors. The industry is severely handicapped by poor marketing and distribution channels, which represents a major bottleneck to increased market shares. Joint ventures should be encouraged with medium-sized international distributors.

### ***A. Historical evolution of the musical sound***

The domestic music industry has traditionally been a part of the subculture of the Jamaican society, previously associated with drugs, violence and anti-establishment counter-culture. Consequently, there has been a resistance to main streaming the industry in many sections of the society and a reluctance to market the image of *reggae* with Jamaica. The music product has historically been evolving. A variety of new forms have evolved from the traditional reggae sound, like *lovers rock*, *dub music* – which is pure instrumental reggae, *dance hall* and *roots and culture*, which are the more prominent among the contemporary reggae formats. Although no contemporary reggae star has gained the international fame of Bob Marley, nevertheless performers like Gregory Isaacs, Burning Spear, Jimmy Cliff, Third World, and other musicians and performers sell hundreds of thousands of records worldwide.

Despite reggae’s initial success in the 1970s, for the past 25 years the music community has felt ostracized and disrespected, breeding isolation and separation from the development of the Jamaican economy. Reggae’s roots in poor, local communities, associated with a ‘class’ of Jamaicans has up to date not been accepted by mainstream Jamaican society. An attitude of ‘them and us’ has become

entrenched, constructing barriers to effective cooperation between the government and the industry. The lingering effect of the old colonial mentality, where only certain professions were considered “respectable”, still prevail in many sectors of the society, such as the financial sector, which continue to pose a significant barrier to the industry’s development. Currently the Jamaican music industry is largely underfunded, owing to the lack of investment and linkages between actors within the industry and the wider economic environment (NSI), such as financial institutions and other business support services.

Jamaican music has grown out of poor communities within which it is still deeply rooted. The challenge for the government and the industry is to develop partnerships and bridging institutions which enable the talent in local communities to reach export markets and build links with national, regional and international markets. Music and Jamaica have been closely associated for a long time. And although the quantity of production continues to be very prolific, declining quality standards and weak sales imply an urgent need to challenge and reverse these unfavourable trends. In order for the innovative and consequent export potential to be realized, the current non-supportive cultural and political values in the society need to be reconsidered. The music industry needs to be recognized as an important foreign exchange earner for the economy.

### ***B. The export potential of the music industry***

The most dynamic segment of Jamaica’s entertainment industry is unquestionably its world famous music. Although this sector represents a vibrant and a dynamic segment of the Jamaican economy, it currently does not possess the technological assets nor the necessary capabilities required to handle the marketing and distribution of the final product in the global market. It is only recently that the Jamaican Government has formally acknowledged its commitment to the development of the music and entertainment industry, and recognized its economic importance. In its 1996 *National Industrial Policy*, the Government of Jamaica has identified this sector as a “winner” in its export strategy for the next millennium. The Jamaican economy has already lost substantial revenue through its *laissez-faire* policy towards the industry suggested by an absence of institutions to organize and promote it. The industry’s contribution to the economy could be considerable. The music industry’s total revenues surpass the earnings from sales of prerecorded music alone; they are also derived from public performance royalties to local songwriters and music publishers, income from local live performances and festivals, overseas concert tours and sale of ancillary merchandise. However, at the present time most of the value added from the international application of Jamaican music products is being made and realized by non-Jamaicans, since the local participants in the industry do not control the greater portion of the value-added chain, particularly the upstream (closer to the final consumer) activities. There have been several recent

studies and reports executed about the Jamaican music industry which point to the considerable potential for the industry as the global market continues to grow. It has been estimated that Jamaican music generates in excess of US\$ 1 billion globally (Watson, 1995; Bourne et al., 1995; PIOJ, 1997), while in 1995 the total value of Jamaican exports amounted to US\$ 1,400 million. However, only a very small portion of this globally generated revenue is earned by Jamaicans or finds its way into the domestic economy.

To fulfil good intentions of making entertainment a vibrant, thriving export industry, a serious shift is needed in the official attitudes towards the industry, in particular to the music segment. Commitment to national institutions needs to be shown. A government entertainment/music entity needs to be established to coordinate all State-related activities required to facilitate the development of the industry; a national collective administration machinery for music copyrights and neighbouring rights; legislation and implementation of mechanisms required to effectively enforce copyrights; institutions and programmes for education and training; a tax and investment incentive regime; the provision of special project financing facilities; the formation of music industry associations; and the strengthening of the existing musicians' union (JFM) are steps which require immediate implementation if Jamaica is to begin to release the potential dynamism of the entertainment industry.

Jamaica's music industry has important externalities and indirect effects for the rest of the economy, such as the preservation and promotion of national culture, support of local talent, the stimulation of the creativity of the Jamaican population (especially the youth), poverty reduction, job creation, the provision of an increased tax base and consequently improved welfare of the local population.<sup>11</sup> Despite the lack of formal structures and institutionalized support systems, the music product, aptly described as *Sounds of Jamaica*<sup>12</sup> (spear-headed by reggae), has established itself in international markets as a viable export product. After tourism, the music product has the potential to become Jamaica's most successful export. Now that there is growing interest in music particular to a geographical, ethnic, political or social location, there is a trend towards creation of global personalities who communicate across national borders and are the homogenous product of global media and communications networks. Reggae music is in the fortunate position of being able to 'cross over' between its ethnic and mainstream markets, but at present lacks a cohesive framework to develop and maximize this capacity. The music product is simultaneously a traditional as well as a non-traditional export of Jamaica with vastly untapped economic, social, and cultural potential and the economy stands to benefit significantly from realizing its full potential in terms of employment and revenue generation, leading to accelerated capital accumulation. The industry offers

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<sup>11</sup> Tourism and entertainment have been identified in the leading industrial cluster.

<sup>12</sup> The "Sound of Jamaica" includes *reggae, ska, dance hall, rock steady, mento, nyabinghi*, fusion and instrumental/dub musical genres.

significant employment potential, including opportunities for self-employment, especially significant for the under-30s segment of the population with very high rates of unemployment – 59.3 per cent (JAMPRO, 1996). Jamaica releases more 45 singles recordings on a per capita basis than any other country in the world. Each week hundreds of new records are released, making it the most prolific producer of sound recordings in the world.

Currently (and historically) most of the local musicians and recording artists do not receive adequate compensation for their creative efforts, either through royalties or shares of income from the sale of recorded music. Moreover, they are not adequately trained and receive little support for improvement. There are numerous factors which account for the relative state of the industry's underdevelopment, such as: (a) inefficiency in manufacturing processes, in part associated with small scale, resulting from underdeveloped technological equipment and capabilities; (b) insufficiency of viable professional associations and other business support systems; (c) the institutional hiatus, witnessed by an absence of critical local institutions, such as a national collective administration agency for copyrights, effective professional musicians and producers' associations, and other requisite institutional support structures to complement and enhance the industry's innovative performance (UNCTAD, 1994).

The greater share of the value-added chain in the industry remains under control of the non-Jamaican industrial players, who remain fully outside the national system of innovation. Domestic firms' capabilities could be fostered in concert with other agents of NSI, in particular, the government which can play a catalytic role in the building of production, exporting, investment production, minor change, strategic marketing, distribution capabilities and entrepreneurial capabilities of this sector (see Ernst et al., 1998). Unless such capabilities are built up, the rapid rates of technological change which have thus far only benefited the industry's oligopolistic competitors (at the cutting edge of new micro-electronics technologies) will create too big a gulf and place these local firms at an even greater disadvantage. The rapid rate of application of new technologies is increasingly widening the technological gap between the producers in the North and the South, whose enterprise capabilities are currently not in a position to take advantage of the new windows of opportunity opened up by the more liberal trading environment.

### ***C. Linkages with other sectors in the NSI***

Jamaican music, in particular reggae, is a cultural treasure. Internationally, reggae has acted as a point of entry to Jamaica through music festivals, such as *Sumfest and Sunsplash*, which attract both foreigners and 'returning' Jamaican visitors. International links are reflected in the Jamaican diaspora, the historical reputation of Reggae and the increasing number of reggae festivals staged abroad. There is, however, insufficient material benefit from this success at the grassroots of the business in Jamaica.

The most obvious institutional link with other complementary sectors is tourism. Another important link which is not yet established in Jamaica relates to the information technology (IT) sector. Jamaica imports 100 per cent of all of musical instruments and equipment for transmission and distribution of music. A considerable portion of production of records and cassettes does not take place in the country and there is little evidence of any adaptive activity occurring in this field (no precise data are available as to the actual shares of output). Currently, insufficient linkages exist between these two sectors although the indirect link with the non-Jamaican IT sector is very strong, in particular through importation of equipment and recording materials. The music sector could serve as an important source of demand for the IT sector. Although links with the local IT sector potentially offer benefits to both sectors through a wide range of externalities, at the present time, these tend to be non-existent and are insufficiently developed. Closer linkages between these two sectors can exert a very positive impact on the industry's performance.

Linkages between music and other Jamaican industries, notably tourism, film and other cultural activities, have also been limited. The present structure of most music businesses, principally small or micro-enterprises, leads to a fragmented industry in which businesses are isolated and without institutional support to induce more cooperative behaviour, for example joint export consortia, joint marketing boards, and joint production and distribution facilities. The music industry's central bridge to the film industry is the music video. However, the present quality of music videos is below international standards and mainly produced for local and regional media. Currently, music videos are considered a major promotional tool for marketing of the music product, but the Jamaican film industry is inadequately developed to provide high quality music videos (at least in terms of quality, if not quantity). This important linkage requires substantial improvement and upgrading for promotional and marketing purposes aimed at exporting to developed markets.

At present global demand exceeds the supply of locally produced Jamaican music product. The British Phonographic Industry (BPI) which categorizes artists by nationality, recently estimated that 4.5 per cent of single record sales and 7 per cent of album sales in the United Kingdom were performed or written by Jamaicans. IFPI figures show demand for prerecorded music is highest in the under-30s age group who purchased 55 per cent of the total during 1987-1992.<sup>13</sup> However, consumers over 45 still accounted for 15 per cent of the market, a share that is growing, not shrinking. The recent decline for Jamaican music in traditional international markets has been more than offset by the *emergence of new markets for reggae* in Africa, South America and Asia. This was recognized by Jamaican participation in the September 1997 MIDEM (the music industry's largest trade fair) held in Miami, which concentrated on the Central and South American markets.

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<sup>13</sup> For a break-down of global demand patterns, see RIIA (1994).

#### ***D. Globalization of the music industry: impact on the domestic music industry***

Globalization of the music business exerts multiple and contradictory effects on this sector. While on the one hand, liberalization of goods and services offers many new opportunities to produce and export the music product without restrictions worldwide through improved market access, at the same time, this process has enabled even further concentration of the major record producers resulting in their increased control of the industry (see chapter III).<sup>14</sup> In the 1980s, local markets enjoyed some degree of protection. This situation has, however, been radically altered in the 1990s, when the boundaries between local and international markets have become blurred. This process has widened further the technological gap between the producers in the North and the South leaving independent and small music producers in an arduous position. Application of information technologies in musical instrumentation, sound recording, distribution and almost every aspect of the music business have exerted adverse effects on the domestic industry as a whole and its ability to respond to the challenges of the new international trading environment. Currently the Jamaican music industry does not have the strengths or capabilities required to meet the export potential. Unless the local producers are able to upgrade their assets and capabilities, the risk of being left behind in the non-growth or very slow growth modes and of marginalization is greater than ever.

In order to respond to the new opportunities offered by the liberal trading system aimed at enhancing the overall capacities of developing countries, domestic industrial capabilities need to be built up and there is much room for policy. This need is more urgent than ever before owing to the intensified pace of technical change in the IT sector and its pivotal impact on the industry. The strengthening of supply capabilities is urgently required in order to take full advantage of the market access opportunities which have opened up for exports from the Caribbean region. This factor has been recognized as a condition *sine qua non* for a more effective strategic participation into the global market economy (UNCTAD, 1995a and 1996a; 1995b). With this objective in mind, adequate and appropriate assistance at all levels to the productive sector will be required to deal effectively with numerous transitional difficulties and constraints. Albeit critical, the role of the government and of the international community at large in the building up of the industry exceeds assistance in training and dissemination of information. Once appropriate policies and support structures are put in place – a strong export potential exists in the industry to make it a viable and lucrative segment of the entertainment industry with a significant contribution to the Jamaican economy.

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<sup>14</sup> The six major record companies control 80 per cent of the United States' recorded music market (JAMPRO, 1996), while five companies control 80 per cent of the EC market (EC, 1993).

### ***E. Music industry revenues***

At the present time, the Government of Jamaica is not in possession of any reliable data concerning the generated revenues from Jamaican music. There are no precise figures on the market value of reggae, although it is estimated that the potential global market value of reggae is US\$ 1.2 billion per annum (Bourne et al., 1995). Official export revenues generated by recorded music from Jamaica are small, relative to the real market values (JAMPRO, 1996/1997). Assessment of reggae record sales can only be estimated as the presently available secondary data on the industry offers conflicting information, however, consensus rules that the recorded figures supplied to STATION tend to be vastly underestimated (Bourne et al., 1995) and do not take into account income generated from international marketing and distribution handled by entities based outside of Jamaica.

Despite the lack of formal structures and institutionalized support systems, the music product has managed to establish itself globally. The music genre classified as “urban contemporary music” – which includes reggae, represents up to 7 per cent of the global market share, whose estimated value in 1996 amounted to US\$ 40 billion (RIIA, 1996). In the United Kingdom alone, 7 per cent of all albums sold are either performed or written by Jamaican composers.<sup>15</sup> Currently it is impossible to ascertain the actual market shares occupied by reggae. Music categorizations are neither precise nor are they standardized internationally. Some countries include reggae into rap, whereas others do not; for example while the *rap* music category in the United States includes only some types of reggae,<sup>16</sup> this is not the case in the United Kingdom. Tracking is almost impossible as most Jamaican music is not recorded on CDs but on technologically outdated formats, e.g. vinyl records and cassette tapes and are primarily distributed by entities which escape detection. Adequate tracking of sales of Jamaica-based products internationally is not available.

With regard to earnings from recorded music in the major markets of the United States, Japan Germany, France, the United Kingdom and Brazil, it has been observed that only in the United Kingdom is there a separate category for reggae. In other countries, reggae is included in rap, urban contemporary and even pop categories. It is therefore difficult to ascertain the actual market shares of reggae from the proceeds from recorded music. Even if this were possible, it would be necessary to take into account the fact that not all reggae is produced, performed and/or composed by Jamaicans. Only a portion of the global income from reggae is attributable to Jamaica. Based on data found in the sales charts in the major markets identified above, in the last 10-year period, as well as the level of concert tour activity for reggae

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<sup>15</sup> According to RIAA (1993), urban contemporary music occupied 9.9 per cent of the US overall market share – a figure reduced from 18.3 per cent in 1990.

<sup>16</sup> Maxi Priest or UB 40, which is included in *Pop* or other musical categories.

acts in the same markets, it is reasonable to estimate that the worldwide income from recorded reggae music is not below 3 per cent of the global income. This implies that if in 1996 the global income generated from the sales of all recorded music was US\$ 40 billion, it could be reasonably deduced that reggae generated approximately US\$ 1.2 billion. With a conservative estimate that Jamaican producers, performers and songwriters account for approximately 25 per cent of this amount, it is estimated that for 1996 earnings from Jamaican recorded music amounted to US\$ 300 million. In addition, earnings from concert tours, ancillary merchandise and production services, as well as the export and other international sales of vinyl recordings through networks not captured in the data provided in the above major markets, need to be taken into account. The estimated value of these untracked activities approximately amounts to US\$ 150 million, resulting in a total of US\$ 450 million for 1996.

Recent trends (1995-1998) indicate a decline in reggae sales and tours in all major music markets. This is partly attributable to the cyclical decline in sales experienced in most music genres worldwide. Another significant factor contributing to the decline can be associated with the recent break down in relations between some major US-based record companies and several leading Jamaican reggae artists. The termination of recording contracts has resulted in a decline of promotional activities for these artists and consequently decline in their sales. According to industry specialists, the following factors have contributed to the break down: (a) unprofessionalism on the part of the artists themselves, who lack a general understanding of international business practices; and (b) unwillingness on the part of the foreign companies to accommodate different business and creative practices and routines from the ones they are familiar with. The recent slump in sales of Jamaican music can also be attributed to the saturation of the US, Western European and Japanese markets for recorded music in general and the resultant shift to new and emerging markets, in particular in Asia and Latin America. The interest of the six majors record companies in Jamaican music has been primarily for sale in the mature Western European, US and Japanese markets.

The artistic community needs to become more cognizant of the differences between the creative side of their profession and the business dimension which is also an important element of the music industry. Such diverse starting points have in the past made it very difficult for Jamaican artists and North American and United Kingdom record companies to interface with each other in a mutually beneficial way. In more successful industries elsewhere, this problem has been circumvented through the use of professional agents, managers, or lawyers who represent the musicians' interests and who understand the business culture and mentality that prevail in the markets of more advanced market economies.

## ***F. Current industrial structure of the Jamaican music industry***

Jamaican manufacturing processes are still largely confined to the vinyl records, which have been in global decline since the late 1970s. The global cassette market is also shrinking rapidly. The prominence of CDs in global markets is well documented (Krasilovsky and Shemel, 1995).<sup>17</sup> The widespread use of new formats – CDs, CD ROMS, digital video discs (DVDs) and digital recordings – have made the Jamaican music manufacturing process obsolete. The lack of a CD manufacturing plant in Jamaica, or indeed within the Caribbean, signifies that quality production for mass markets is situated well away from Jamaica. However, Jamaica has adequate recording studio facilities for the production of masters.

In order to reap economies of scale, the industry's expansion towards the Caribbean and the global market is considered essential. In the particular case of the music business – which is peculiar in many ways – both the performer-producer as well as the customer-user is mobile, thus relieving the locational constraint from the production process. Local artists can perform and earn revenues worldwide. Physical mobility is an important factor related to expansion of market size, which could potentially offer a significant advantage to the industry and should not be overlooked in the elaboration of a comprehensive industrial development plan for the industry.

The industry is characterized by a lack of an organizational structure, contributing to the inability of the sector to earn profits comparable to those in more developed market economies. Further studies are required prior to the elaboration of a development plan for the industry as regards the most appropriate model of industrial development. Several models have been proposed, such as the US one (Watson, 1995), the clustering model found in certain regions in Italy (e.g. Emilia-Romagna), or the Irish model, and so forth. At this stage, it is not obvious which is the most advisable model to implement. Further research is highly recommended in this area.

## ***G. Opportunities for creative partnerships***

Firms upgrade their products through product and process innovations with which they can penetrate new markets. This process can be facilitated by networking and creative partnerships with more advanced MNCs, through joint ventures which may lead to transfers of knowledge. Foreign direct investment (FDI) is not, however, without costs nor should it be seen as a substitute for domestic

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<sup>17</sup> Globally CDS have achieved 93 per cent market share of the market for recorded music. In the United States, which accounts for 36 per cent of Jamaica's exports of recorded music, CDS dominate 97 per cent of the same market. In Europe, with 33 per cent of Jamaica's exports, CDS control 97 per cent of the market, while in Japan, with 15 per cent of Jamaica's exports, CDS control 99 per cent (IFPI, 1994).

investment. The building of domestic supply capabilities remains critical. This, however, can only be achieved through a complex mixture of incentives, institutions and capabilities. With this in mind, one option which deserves serious consideration relates to encouragement of creative partnerships with music business companies in more advanced countries through for instance, encouragement of technology licence agreements and marketing and distribution joint ventures. In this context, technology transfer policies could be encouraged through appropriate targeting of MNCs, particularly as technological development of modern production advances rapidly. The government could consider targeting investors particularly in Asian countries which could offer some interesting cross country learning experiences in the manufacturing of CDs and greater use of information technologies in almost all aspects of the music business.

Creative partnerships between Jamaican companies and foreign ones should be encouraged with leading local record companies, like Tuff Gong, Penthouse, Music Works, Madhouse, Studio 2000, Main Street and Taxi Productions, through provision of market and non-market incentives. Future foreign investment is likely to result from improved technological capabilities, application of new and improved technologies in microelectronics and information-technologies, i.e. FDI tends to gravitate towards high-tech areas. The government could promote networking which would enable domestic firms to upgrade their products, methods of production, increase market shares in existing markets as well as penetrate new markets, through a combination of policies focused on investment-promotion and provision of productivity-enhancing incentives. Furthermore, responsible public agencies can support the development of this sector through the promotion of partnerships with the private sector through joint ventures and innovative approaches to strategic alliances with other entities in the Caribbean region. In particular, alliances with Cuba should be vigorously pursued as that island's music figures prominently in the reported increase in global market share enjoyed by the Latin American region.

The Jamaican reggae beat has experienced significant popularity in several Latin American countries giving rise to the formation of many very successful Latin American reggae bands. Jamaican reggae music has not, however, enjoyed the same level of success as that experienced by a number of Latin bands primarily owing to the language barrier. However, it is significant to note that many of the successful Latin and Brazilian bands have incorporated Jamaican music styles such as Ska and Dance Hall in their recordings and performances. Collaboration between Cuban and Jamaican artists and producers to create a fusion of Latin reggae could prove to be very successful in Latin markets.

Quality production is only a small part of what is required for success in the global market place as accessing distribution plays a key part in increasing value added for the local industry. For a Jamaican artist to reach a world market, this usually means making a contract with a foreign production and distribution company. One successful example of this kind of networking arrangement can be found in London, with a leading UK reggae distribution company which provides sales, marketing, and distribution

services for Jamaican labels and has a successful series of compilation albums. It distributes labels either by licence, where it pays a percentage to the producer of the label and manufacture under its own label, or by taking a percentage from a Jamaican-based producer to distribute his products on his own Jamaican label. This well-established company uses facilities based in London to manufacture CDs from masters it receives from Jamaica. A continued strong Jamaican presence at the annual music fair in France (MIDEM) may be the start of more useful contacts. The weak point in the system of distribution and marketing is delivery of music to the market place and the perceived nature of the product supplied. Media access and exposure is universally weak. In part this may reflect confusion by the media about the brand characteristics of what reggae constitutes.<sup>18</sup>

Given such constraints, Jamaican domestic production sells mostly in the domestic and ethnic international markets, where maximum sales of a disc are 30,000 but typically between 5,000 and 20,000. Local producers complain that some artists are too confined in their ambition, content to stay in the domestic and ethnic international markets yet wishing to “get rich quick”. Producers without affordable access to wholesale and retail outlets overseas and to loan finance are trapped between demands for immediate royalties and the costs of record production and pressing, labels and promotion. Wholesale and retail markets are highly structured with large distributors controlling chains of retail shops in many countries, and trends in developed markets continue to confirm the significance of scale economies in this area. Initiatives to pursue joint ventures to gain access to foreign markets and media would be advisable. Such initiatives would need to be fully compatible with the obligations incurred by Jamaica in the World Trade Organization (WTO).<sup>19</sup>

## V. NSI AND THE MUSIC INDUSTRY

### A. *Local institutional players*

Within the government there are a number of ministries and agencies with activities which impact on the music industry, namely the: (a) Office of the Prime Minister’s Information Division (responsible for media policy); (b) Ministry of Industry and Investment (responsible for JAMPRO – Jamaica Film,

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<sup>18</sup> For example, the BBC (United Kingdom) does not see reggae as daytime music, confining it to an ethnic slot at midnight on Saturday night. Local UK radio stations are a little more accessible, but white-owned stations rarely promote reggae accepted as a cultural norm despite its wide popularity. The present level of access is sustained by “champions” – DJs who have ensured continued play through “sound systems”. They have developed the technology to operate radio stations, but lack capital and organization.

<sup>19</sup> WTO membership, however, may imply that the application of some of the measures discussed above will be more difficult than before.

Music and Entertainment Commission); (c) Tourist Board; (d) JAMPRO; (e) Jamaica Cultural Development Commission (JCDC); (f) Ministry of Education, Youth and Culture; (g) Ministry of Commerce and Technology (Copyright Unit); (h) Creative Production and Training Center; (i) Broadcasting Commission; and (j) Social Development Commission. However, despite the existence of so many public entities, there has been no positive discernable government policy and very little impact on the industry. For the most part, these public entities tend to operate independently of each other and appear not to interface effectively.

A more efficient organizational innovation might be a single, relatively autonomous agency staffed with industry specialists and informed government officials, which would be in a position to liaise with the industry's participants as well as coordinate the activities of other ministries and agencies. The present Jamaica Film, Music and Entertainment Commission could be restructured into such an agency. Private sector industry representation on the board of directors of any such agency is considered critical to a demand-led approach to the industry's development.

Within the music industry itself, there presently exists only one professional institution, an artists' and musicians' union called the Jamaican Federation of Musicians, JFM, established 40 years ago. Although the union has in excess of 2,000 members, its effectiveness could be greatly enhanced. The union has been actively involved in a number of initiatives in conjunction with other players in the industry, e.g. JAMPRO, the Copyright Unit and the JCDC, such as training workshops, copyright reforms and administration, and the development of proposals for the establishment of an investment and tax incentive regime for the industry. Recent developments include the initiative to establish a music copyrights collective administration agency called the *Jamaica Association of Composers, Authors and Publishers, JACAP*, and a music industry trade organization. The development process for these new private sector institutions has been long and difficult owing to lack of unity and mistrust among the industry players and the generally low level of understanding of the business of music among the majority of the industry's participants. A public *music and entertainment industry board* could potentially act as a catalyst for the formation of private sector industry organizations through appropriately designed policies aimed at encouraging the industry's evolution towards a modern, competitive one.

## ***B. Product development through innovation***

In recent times, some worrisome trends have been recognized, namely the music product itself is not evolving as it did in the 1960s, 1970s and early 1980s. Drawn by high profit rates made by the original artists and performers, a large influx of semi-skilled, poorly trained individuals and semi-professional producers flooded the Jamaican music scene. Consequently, the quality of song composition and musical

competence has been on the decline, largely associated with the uncontrolled entry of the mass of ill-trained artists, composers and “music executives”. Nevertheless, despite the low quality, their recordings receive support from the local radio stations as disc jockeys, are offered financial and other favours in return for playing the songs (the *payola* system). This highly anarchic and rent-seeking environment has had a negative impact on product quality.

With a view to remedying this situation, it has been suggested that the following measures be urgently considered: (a) the imposition by commercial radio and TV stations of strict music programming policies; (b) the organization of workshops and training sessions for songwriters, musicians and producers utilizing the services of experienced local and foreign personnel; (c) increased collaboration between local songwriters and producers with foreign composers, producers and artists; and (d) the implementation of a local product content quota system for domestic radio and television stations. Slow product development has consequently resulted in weak international air play and poor global distribution. The following areas have been targeted for development in this context: (a) foreign language recordings, and the development of new compositions; (b) product diversification through technological upgrading (JAMPRO, 1996).

### ***C. New technology and product development***

Adoption of new technologies by the Jamaican firms who participated in the survey, particularly information technologies by recording studios, specifically in the second half of the 1980s has facilitated the speed and flexibility in production, reduced production costs and improved the quality of sound recordings. These firms identify the success of their business with the application of new technologies. Although willing to invest in new technologies and try out new methods of production, they are unable to do so owing to lack of resources and access to finance. The currently prevailing financial and market conditions, witnessed by deflationary policies and tight macroeconomic conditions are not conducive to investment in the industry, either domestic or foreign.

### ***D. Foreign investment***

Currently, there is practically no significant foreign investment in the industry. With the exception of one completed recording studio project, and another “in the pipeline”, there is no foreign investment in the industry’s production and manufacturing facilities. A few foreign-based companies continue to invest in recording projects to produce the actual masters, but the scale of this investment is considered insignificant.

### ***E. Intellectual Property Rights (IPRs) and new technologies***

A highly worrisome area in the business relates to copyright enforcement resulting from lack of respect and appreciation of IPRs generally and particularly of copyrights among both the users and the music creators in Jamaica and the extended Jamaican communities in North America and in the United Kingdom, which presents many problems to the legitimate industry's efforts to develop.

The Jamaican music industry suffers from considerable financial losses as a result of piracy. It is vital to establish effective copyright protection and enforcement mechanisms. The advent of new microelectronics in the music business has enabled piracy of Jamaican music at an unprecedented rate. Furthermore, new technologies have made enforcement of property rights a tough challenge. Presently, almost anything can be copied rapidly and cheaply, quickly replicated at high quality and subsequently distributed via Internet in a variety of formats. Preventing reproduction of music material has become literally impossible. These trends adversely affect the recorded music industry where it is estimated that CD pirates hold up to a 20 per cent share of the global market. "The legal system may be able to stop factories from copying and selling CDs or books in volume, but it cannot stop individuals from replicating the materials for themselves or selling small numbers to their friends" (Thurow, 1997).

Enforcement of copyrights is a highly problematic area in Jamaica, although the present copyright law, which has been updated to international standards in 1993, is considered adequate. Moreover, copyright laws need to keep up with technology and adequate domestic IPR systems need to be established to incorporate the conventional reciprocal arrangements with IPR systems in external markets to enable global collections of copyright royalties. The failure to develop adequate means for the enforcement of copyrights will result in adverse effects on the industry as too much "free" use of musical expression tends to discourage songwriters and producers from creating new works. Musicians in Jamaica are at present not being properly rewarded for their creativity. This discourages further creativity and innovation in the music product. In order to develop new products and processes, individuals must have the monetary incentives to do so. Developing new knowledge (or a new song) is neither cost less, easy, nor a quick process. Better incentive systems will lead to production of new musical compositions. Innovation in this industry occurs primarily in the private sector, for that reason there is a strong need for stronger private incentives. An adequate system of IPRs is consequently an important incentive for innovation in the music industry. Copyright gives a temporary monopoly to the creator over his/her work which enables extra normal profits – the main financial incentives for innovation. Copyrights may be sold or leased to other entities. Private monopoly rights, which the copyright system establishes thus encourages innovation in the music product. On the other hand, the wider the distribution of the new knowledge (or a new song), the greater the benefits to the society. Any well-functioning system of IPRs

needs to address this paradox and make the necessary tradeoff between individual and social interests at large.

The existing institutions in Jamaica are too weak to develop adequate infrastructure for the music industry. Most notably absent is an enforceable legal framework to protect intellectual property rights. At present Jamaica does not have a national collection agency in place to deal with the administration of mechanical rights and the resultant royalties due to songwriters and publishers from record sales, neither is there an agency in place to represent the owners of neighbouring rights. The only collection agency operating in the country is the UK-based PRS which deals exclusively with the administration of public performance rights. Recently, efforts have been made by the industry to establish a Jamaican collective administration agency to deal with both public performance and mechanical rights. This agency, the Jamaica Association of Composers, Authors and Publishers (JACAP) is still being formalized.<sup>20</sup>

#### ***F. Identification of the main challenges for the industry's development***

Interviews with Jamaican artists, managers and producers confirmed the absence of foundations for a modern competitive industry. Access to finance capital is prohibitive and there are too few development bank loans. There is no industrial association to coordinate access to financial services or make effective representations to government, for example over import taxes on musical equipment. The main barriers to entry to global markets have been characterized as being:

- (i) *Political and cultural*: insufficient public sector support for the industry; public perception of the sector needs to be changed, from being part of the underclass, black subculture to being mainstreamed as a legitimate business. Many performers and musicians perceive government as well as private sector industry players as being insensitive and hostile to their interests and needs.
- (ii) *Institutional*: absence of an effective institutional framework incorporating both the private sector and government organizations; lack of industry specialists in government entities to enhance public sector effectiveness and credibility.
- (iii) *Technological*: the industry is characterized by an abundance of minimum-sized production and distribution units which are unable to exploit internationally the industry's products. Average company size tends to be too small, while plant and equipment, on the average, tends to be obsolescent. Personnel generally does not possess the necessary technological

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<sup>20</sup> Several Caribbean countries have demonstrated a willingness to establish collective administration agencies within the region and thereby reduce their dependence on PRS. There has even been an initiative towards exploring regional cooperation in collective administration of copyrights; WIPO has been active in this field.

skills to run up-to-date facilities. Current facilities, which tend to be on the average technologically outmoded, require considerable upgrading through the tangible and intangible assets. There is also lack of technological assets and marketing capabilities required to manufacture and export the final product. Traditionally, musical instruments and equipment were considered luxury items and thus taxed with high import duties which discouraged their importation and wide use to the obvious detriment of the industry's technological advancement. Additionally, presently existing performance facilities are inadequate (traditional 700 to 1000 seats); there is a need for facilities for larger audiences. Absent also is applied use of information technology.

- (iv) *Weak linkages with NSI:* Linkages amongst the players in the industry itself are weak as witnessed by an absence of professional associations and industry-based institutions. Weak or ineffective links between the music sector and the following sectors in NSI tend to prevail: (a) public sector institutions; (b) R&D sector: local versus international; (c) domestic IT sector; (d) other complementary sectors of the economy, e.g. tourism, film, dance; (e) the National Statistical Office and other official data-gathering agencies: the industry has very weak institutional links with any official economic and statistical agencies. Official data on economic performance of the industry is currently unavailable resulting in a serious gap in data collection.
- (v) *Financial:* a credibility gap exists between government and the industry with regard to finance and investment. Finance for innovation remains a major weakness of the system. The majority of the firms participating in the survey experienced major problems in obtaining finance for innovation, from either public or private (prohibitively expensive) sources. Venture capital and other finance facilities offering credit at favourable rates for this sector are not available. Increased credit allocation is essential for the evolution of the industry, in particular considering the need for upgrading of its plant and equipment. An appropriate investment and tax incentive regime should be designed and implemented as soon as possible.
- (vi) *Human resources:* low level of music business professional expertise in such areas as artist management and development, law and marketing; human resources generally tend to be underdeveloped for the requirements of the global economy and need upgrading. The creative talents are also in need of upgrading. Education and training has been a victim of macroeconomic constraints which have severely reduced music and drama education in schools, diminishing the initial pool of talent available to the business. It also has precluded introduction of technical skills training, in particular electronics training, for an industry where the latest production methods continue to rely on technical advances as the trend towards electronic distribution of music products continues. Absent also is applied use of information

technology, business organization, management and marketing skills to the music business. There is need for enhanced opportunities in musical training facilities, allied with a need for some degree of diversification in the types of training offered at all stages, including band development programmes in underprivileged areas of the urban centres.

## VI. NSI IN JAMAICA: POLICY OPTIONS

Linkages between the music sector and the NSI in general are broadly informal and underdeveloped. As described above, the evolution of the music industry in isolation from mainstream Jamaican economic development has curtailed both backward and forward linkages within the NSI framework. Currently, Jamaica's national system of innovation is in a fledgling stage. A stronger system, however, will not emerge spontaneously but needs to be carefully nurtured through effective policies, based on an interplay between stronger incentives, institutions and capabilities. Moreover, in today's globalizing world, technology issues are increasingly linked to trade and investment. Policy measures to strengthen the NSI must consequently be consistent with wider economic objectives at the macroeconomic and structural levels. Insufficient dynamic interactions prevail amongst the major players in the Jamaican economy and deficiencies lay at both the supply and demand side of the equation. Jamaica's new technology policy needs to go beyond the traditional *supply-side* concept directed predominantly at promotion of research activities in the public sphere to demand side approach. It is not difficult to imagine that implementation of such a policy will meet major problems, but this is unavoidable. The lack of a systemic approach to innovation policy in Jamaica hampers industrial development in general.

In conclusion, the nature of competitiveness over the last two decades has changed dramatically. Traditional industries and low cost commodities no longer provide the answers to successful competitiveness. Under the new global trading regime, it is imperative to diversify into other activities, like services and other non-traditional sectors. The Jamaican music product has already demonstrated its comparative advantage on global markets. As competition is becoming increasingly based on innovation in designing new products, ensuring new quality output, modifying production processes and diversifying into specialist niche markets, the Jamaican music segment of its audiovisual services may provide the alternative, albeit risky, but with high potential returns.

In order for Jamaica to become a globally competitive player in the business of music, the government should take the lead role by formulating and clearly stating a definitive policy on entertainment, and in particular, the music sector. Government initiative seems absolutely necessary, owing to the lack of cooperation within the private sector. It will also be necessary for music industry practitioners, members of the educational and academic communities and providers of financial and other business support services to cooperate with government in designing and implementing strategies to

reduce the existing barriers to enterprise development and greater participation in the global music market. The cooperative effort between government and private sector interests could result in the formulation of a comprehensive music industry development plan to be implemented over a three- to five-year period. Such a plan would need to address, inter alia, the weak institutional and legal framework which now exists, as well as the requirement for better facilities to enhance product and human resource development and the obstacles to participation by domestic music producers in a greater portion of the value added from the commercial use of Jamaican music in the global market. An assessment of the current production capabilities of local enterprises and the incorporation of existing industry development programmes into the design of an appropriate development strategy, are the critical steps which require immediate attention.

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